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UNCLAS TEGUCIGALPA 000293

SIPDIS

SENSITIVE

STATE FOR WHA, WHA/CEN, AND PRM/PRP

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SUBJECT: TPS FOR HONDURAS - UPDATE ON ECONOMY AND RECONSTRUCTION EFFORTS

REF: A. STATE 19332

[1](#)B. 03 TEGUCIGALPA 442 AND PREVIOUS

[1](#)1. (U) Summary: While most USG-funded post-Mitch reconstruction efforts are complete, and much physical infrastructure has been rebuilt, the stagnant Honduran economy and the continued crisis situation in Honduran government finances make it unlikely the country could provide the jobs, health care, housing, and schooling for the approximately 87,000 people that might return if Temporary Protected Status (TPS) is ended. End Summary.

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Hurricane Reconstruction - Infrastructure Rebuilding Largely Complete  
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[1](#)2. (U) With the help of the international donor community (of which USAID is the largest bilateral contributor), Honduras has largely recovered from the physical devastation of Hurricane Mitch. USAID's USD 300 million recovery program focused on a wide variety of reconstruction interventions in the areas of education, housing, water and sanitation, rural roads and bridges, disaster mitigation, health, agriculture reactivation, credit, accountability, and transparency. The majority of this program was completed by the end of 2001. The reconstruction of damaged urban water and sanitation systems is scheduled to be fully completed by the end of FY04.

[1](#)3. (SBU) The one area of shortfall is housing. Post estimates that 33,000 homes were destroyed and another 50,000 homes damaged during the hurricane. An estimated 25,000 have been rebuilt, leaving many families to make do with temporary solutions. USAID financed the delivery of 6,100 permanent units, making it the largest single donor in this area.

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Economic Conditions - Recovery Still Elusive  
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[1](#)4. (SBU) In contrast to infrastructure reconstruction, the Honduran economy has never regained sufficient growth to generate much needed employment and sufficient financial resources for adequate public services. Depressed economic growth of about 2.5 percent per year, over the 2001-2003 period, has not kept up with the annual population growth of 3 percent. The GOH estimates that true unemployment is hovering around 34 percent. Commodity prices, including coffee, are starting to rise, and the light assembly sector (especially textiles) is starting to recover, but job growth in 2004 will not be sufficient to accommodate anticipated population growth, much less the potential 87,000 TPS returnees.

[1](#)5. (SBU) Poverty is still widespread, with about 64 percent of the households living on \$2 a day or less. Because of the continued economic decline, remittances from Hondurans living overseas continue to grow rapidly, reaching USD 800 million in 2003 and becoming the country's largest source of foreign exchange.

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And Government Ability to Provide Needed Services Is Also Weak  
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[1](#)6. (SBU) President Ricardo Maduro, upon assuming office in January 2002, inherited seriously deteriorated government finances and has spent the first two years of his administration trying to remedy the structurally-caused imbalances. Honduras continued to run budget deficits of 5.5 percent of GDP in 2002 and 2003, totally unsustainable for a deeply indebted country with no recourse to international capital markets. The austerity measures put in place in 2002 and 2003 in order to regain macroeconomic balance and reach an agreement with the IMF mean that the government is hard-pressed to expand health care, housing, schooling and other social services just to accommodate the current population, much less an additional 87,000 people. Most

ministries have seen their 2004 budgets cut, in real terms, by ten percent; some key ministries doing work in the rural areas are receiving cuts of almost 50 percent. The Honduran government continues to struggle to find the funds to hire additional teachers, doctors, and police to meet current needs; significant funds are still needed to repair and expand existing roads, water and sanitation systems, electricity distribution systems, schools and health clinics, especially in the rural areas.

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